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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 07/21/06

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Prime Minister's schedule, July 20

NIHON KEIZAI (Page 2) (Full)

July 21, 2006

10:32

Met at Kantei with Deputy Chief Cabinet Secretary Futahashi.

11:00

Met Economic, Fiscal and Financial Policy Minister Yosano and others. Followed by Morocco Ambassador Lecheheb. Later met JDA Director General Nukaga.

13:57

Met Disaster Prevention Minister Kutsukake, Deputy Chief Cabinet Secretary for Crisis Management Noda, and others.

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14:31

Met OECD President Gurria and others.

15:05

Met Japan Institution of International Affairs President Yukio Sato. Followed by Lower House member Satsuki Katayama. Then met Secretary General Takebe.

16:45

Met Tunisia Ambassador Hannachi and others.

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17:00

Met METI Vice Minister Kitabatake, and Natural Resources and Energy Agency Director General Mochizuki. Attended a meeting of the Council on Economic and Fiscal Policy. Later, met Finance Minister Tanigaki.

18:24

Returned to his official residence.

4) Koizumi: Emperor Showa's Yasukuni Shrine statement will not affect his visit

TOKYO SHIMBUN (Top play) (Abridged)
July 21, 2006

In the wake of the revelation of a memorandum showing Emperor Showa's displeasure with the enshrinement of Class-A war criminals at Yasukuni Shrine along with the war dead, Prime Minister Junichiro Koizumi was queried by the press yesterday afternoon if this would have any impact on his practice of visiting the shrine. In response, Koizumi said:

"No, it won't. To visit or not to visit is every individual's choice. It is a matter of the heart. No one can force it. You cannot say good or bad because so and so went there, either."

Thus Koizumi left open latitude for a visit to the shrine before his term of office expires in September.

Regarding a report that Emperor Showa expressed displeasure with the enshrinement of Class-A war criminals at Yasukuni, Koizumi said:

"I don't know it in detail, but it's a matter of the heart. I think (Emperor Showa) had various thoughts in his mind."

Regarding the fact neither Emperor Showa nor the present Emperor have visited Yasukuni since it enshrined Class-A war criminal along with other war dead, Koizumi only said:

"I cannot say anything about it because different people have different thoughts. It's a matter of the heart. Every individual has the freedom to decide whether to visit or not."

Touching on calls for removing Class-A war criminals from Yasukuni, he also said:

"The government should abstain from imposing its view on any religious organization. People are free to discuss it, however."

Meanwhile, Chief Cabinet Secretary Shinzo Abe in a press conference

yesterday afternoon reiterated the government's view on the Class-A war criminals' responsibility for the war:

"It is a fact that they were convicted of committing crimes against peace in the International Military Tribunal for the Far East. Japan is not in a position to raise objections."

Chinese Foreign Ministry expresses hopes for speedy removal of obstacle to Japan-China relations

Norihiro Shingai, Beijing

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In a telephone interview on July 20 with a Chinese Foreign Ministry official on the revelation of a memorandum showing Emperor Showa's displeasure with Yasukuni Shrine's step, he said:

"There is no change in our clear intention to bring progress to relations with Japan. We hope for a removal of an obstacle to the improvement of bilateral relations."

China's official Xinhua News Agency also simply reported on July 20 that the memorandum was discovered without any commentaries.

Yuji Yamamoto, Seoul

On July 20, South Korea's KBS-TV 9 p.m. news program reported on Emperor Showa's alleged displeasure with Yasukuni Shrine's step regarding Class-A war criminals, while citing Prime Minister Koizumi's comments. The program also said that conservative Japanese lawmakers would lose their justification for visiting the shrine.

The South Korean government has not released any official comment.

5) '06 LDP presidential election: Emperor Showa's "Yasukuni" remarks found in a memo likely to give impetus to calls for separate enshrinement and construction of a new facility; Abe may find himself at disadvantage

YOMIURI (Page 4) (Excerpts)
July 21, 2006

Following the discovery of a memo confirming Emperor Showa had discontinued visiting Yasukuni Shrine because of the enshrinement of Class-A war criminals there, speculation began growing in the ruling and opposition parties yesterday that this development is likely to give a boost to the notion of separate enshrinement, as proposed by former Liberal Democratic Party (LDP) Secretary General Makoto Koga, chairman of the Japan War-Bereaved Association. It could also help the move led by former LDP Vice President Taku Yamasaki for the construction of a national memorial facility. There is also an analysis that Chief Cabinet Secretary Abe, who is positive about paying homage at Yasukuni Shrine, may be placed at a disadvantage in the upcoming LDP presidential election in September.

"I have nothing to comment beyond this," Abe said in a firm tone to end a press briefing yesterday evening, in which he faced a barrage of questions about the Yasukuni issue.

Abe's position is that the Yasukuni issue should not be used as a campaign issue. In his book published yesterday, Abe insists on the appropriateness of visits to Yasukuni Shrine and expresses his deep respect for the imperial family. He appeared irritated at the sign of an escalation of debates over shrine visits in the wake of the discovery of the memo.

Also, LDP Secretary General Takebe emphasized to the press corps: "Yasukuni Shrine is a religious corporation. So, the government and politicians should not tell the shrine to do this or that. It's wrong to see this development in the context of whether it has an impact on the presidential election or not." In contrast, New Komeito Representative Kanzaki told reporters: "Calls for separate enshrinement are certain to gain momentum in various quarters of Japan."

LDP lawmakers who are in favor of the prime minister's visits to Yasukuni Shrine were shaken by the memo.

6) Japan ratcheting up pressure on North Korea

NIHON KEIZAI (Page 2) (Full)
July 21, 2006

Without waiting for additional sanctions against North Korea, both the public and private sectors are ratcheting up pressure on that nation. Some local governments have reduced or exempted the property tax for facilities related to North Korea. The government yesterday released the results of its survey on these governments and urged them to strengthen taxation on such facilities. In the private sector, many companies have voluntarily refrained from discharging cargo from North Korean-registered ships at ports across the nation.

The Internal Affairs and Communications Ministry conducted a survey on 140 local governments that house the head office or branch offices of the General Federation of Korean Residents in Japan to see the state of their special measures to reduce the property tax for such facilities for fiscal 2006 and released its results yesterday. The ministry publicized the results of the survey for fiscal 2005 in March. The latest survey is intended to see if the tax on North Korean facilities was raised over the last four months.

There are 44 municipal governments that have exempted North Korea-affiliated facilities from taxation, including Sapporo, Saitama, and Fukuoka. This figure is 19 less than in the previous survey. The number of governments that have not taken preferential measures increased nine to 41.

Mainly private businesses have voluntarily refrained from discharging cargo. Nippon Express Co., has stopped cargo-handling operations for North Korean ships since July 7 at Maizuru Port in Kyoto, at which the largest number of North Korean ships called. A company worker said: "We voluntarily decided it, taking various circumstances into consideration." The company has no plan to remove this measure for the time being.

7) Japan looking for ways to surround North Korea; High-level officials of Japan, US, South Korea meet

YOMIURI (Page 2) (Excerpts)
July 21, 2006

Following the United Nations Security Council's (UNSC) recent adoption of a resolution on North Korea, visiting high-level officials from the US government and the South Korean government yesterday met separately with senior officials of Japan's Ministry of Foreign Affairs (MOFA) and other agencies. They discussed such matters as the possibility of the resumption of the six-party talks. While leaving room for discussions with other countries, for instance, under the six-party framework, the Japanese government intends to look for ways to tighten the net around North Korea in preparation for additional sanctions to take under the Foreign Exchange and Foreign Trade Control Law.

MOFA's Asian and Oceanian Affairs Bureau Director-General Kenichiro

Sasae yesterday met with South Korea's Foreign Affairs and Trade Ministry's Korean Peninsula Peace Diplomacy Department Director Chun Young Woo at MOFA, and the two officials agreed on the policy of implementing the UNSC's North Korea resolution and bringing North Korea back to the six-party talks as quickly as possible. They also confirmed that they would use the upcoming ASEAN Regional Forum (ARF) in Malaysia slated for July 28 in order to translate this policy into action.

But there is a difference between Japan and South Korea in terms of which to emphasize, dialogue or sanctions. After the meeting, Chun, speaking of the UNSC's resolution that includes a provision preventing the transfer of money and technologies for missile development in North Korea, stressed: "(The resolution) must not be used to obstruct the resumption of the six-party talks. It should not be used to impose sanctions for the sake of sanctions." Chun then indicated a willingness to hold a five-party meeting without North Korea.

8) Koizumi to visit resource-rich Central Asia next month

YOMIURI (Page 1) (Full)
July 21, 2006

Prime Minister Junichiro Koizumi decided yesterday to visit several countries in Central Asia in late August. The aim is to strengthen relations with Central Asian countries with rich energy resources, such as oil and natural gas. This will be the first trip to Central Asia by a Japanese prime minister. Koizumi is also scheduled to go to Mongolia in early August as part of strategic diplomatic efforts to curb the increasing influence of China and Russia in this region.

In meetings with Kazakhstan President Nursultan Nazabayev and other leaders in this region, Koizumi will reveal plans to support their efforts to adopt a market economy, construct roads, eradicate infectious diseases, and to protect the drought-affected Aral Sea.

Japan has mapped out a plan to transport oil and natural gas exploited in Central Asia to the Indian Ocean via Afghanistan and then to import them to Japan. It is necessary to construct a pipeline and road network first. But such facilities will run through politically unstable areas, so no specifics have yet been worked out. In a bid to turn this plan into action, Koizumi will convey Japan's willingness to accelerate working-level talks.

Countries in Central Asia are traditionally pro-Japanese, but as members of the Shanghai Cooperation Organization, they are forging stronger cooperative relations with China and Russia on the political and military fronts. By expanding its economic ties with Central Asia, Japan would like to prevent a formation of bloc economy, centered on China and Russia, in this region.

9) Maritime Chief of Staff Saito tapped as joint staff head

NIHON KEIZAI (Page 2) (Full)
July 21, 2006

Defense Agency (JDA) Director General Fukushima Nukaga yesterday accepted Head of the Joint Staff Hajime Matsusaki's honorable retirement and unofficially appointed Maritime Chief of Staff Takashi Saito to replace him. The personnel decision will be

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officially announced upon reported and approved at a cabinet meeting on Aug. 4. Matsusaki, who used to be a Ground Self-Defense Force (GSDF) member, assumed the current post when the SDF integration operation system was introduced in March. Saito will be the second head of Joint Staff. Given the completion of GSDF withdrawal from Samawah, the JDA decided on the replacement.

Takashi Saito: After graduating from National Defense Academy in 1970, joined the Maritime Self-Defense Force; after serving as Maizuru district commandant and Yokosuka district commandant, assumed the post of maritime chief of staff in January 2005; comes from Kanagawa Prefecture; 58 years old.

10) Defense spending cut likely to be focus of budget compilation; Tug of war between JDA, MOF over budget for US force realignment

YOMIURI (Page 4) (Full)
July 21, 2006

With a 1% cut in the national defense budget's discretionary outlays set by a guideline for budgetary requests, which will be formally

decided today, a tug of war between the Defense Agency (JDA) and the Ministry of Finance (MOF) is likely to intensify in the budget compilation that will start shortly. Given the huge amount of US force-realignment-related costs, the focus of budget compilation will be (1) the question of whether the realignment costs will be appropriated separately from the defense budget; and (2) when and how the midterm defense buildup program covering fiscal 2005 through fiscal 2009 will be reviewed.

Regarding the US force realignment costs, the guideline for budgetary requests states: "If trouble in terms of reducing local burdens is likely to arise even after the defense-related expenditures are further streamlined, such costs will be separately discussed in the process of budget compilation." The JDA has held that "it is impossible to include all the realignment costs in the defense budget," as JDA Director-General Nukaga has said. A senior JDA official interprets the guidelines as "leaving open the possibility of handling realignment costs in a separate budget."

The realignment costs planned in the fiscal 2007 budget will be research expenses and the like, but in the three years ahead, the construction of an alternate facility for the US Futenma Marine Corps Air Station, for example, will be set into full motion, and the annual realignment costs are expected to reach hundreds of billions of yen.

In the fiscal 2006 guideline for budgetary requests, there was a 3% cut in the defense budget's discretionary outlays, but in the fiscal 2007, such a cut is likely to be only 1%. This has made the JDA relieved.

The JDA's initial plan was to put off a review of the midterm defense buildup program until next year, when the details of the US force realignment plans are made clear. But in response to North Korea's recent ballistic missile launches, some in the JDA are beginning to contend that in order to minimize defense spending cuts, it is wise to review the buildup program this year, when there is a heightened sense of crisis.

11) Increasingly unlikely that Yasuo Fukuda will run in the LDP presidential election, making Abe the easy frontrunner

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MAINICHI (Top play) (Excerpt)
July 21, 2006

The outlook is growing stronger that former Chief Cabinet Secretary Yasuo Fukuda will not declare himself as a candidate in the September election of the Liberal Democratic Party (LDP) president. In addition to the large number of supporters of Chief Cabinet Secretary Shinzo Abe in the Mori faction, to which Fukuda also

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belongs, Fukuda himself on the 20th strongly hinted to his aides his intention not to run. Another strong possibility that he will not run has been his showing in public opinion polls, always second after Abe. The probability has become strong now that the LDP presidential election will find Abe as the easy frontrunner.

12) BSE: US to end special inspections as early as end of August;
Number of cattle subject to inspection to be reduced to 40,000 a year

TOKYO SHIMBUN (Page 3) (Full)
July 21, 2006

Washington, Shinichi Kuru

Mike Johanns, secretary of the Department of Agriculture, gave a telephone press conference yesterday. He announced that the US would end special BSE inspections, which were introduced in June 2004, as early as the end of August and instead reinstate regular inspections.

Japan imposed a second ban on US beef imports following to the

discovery of specified risk materials in shipments, which are believed to be the cause of BSE. The outlook is now that the beef trade will be reinstated as early as the end of this month. The curtailment of safety inspections before the resumption of beef trade will likely incur the distrust of Japanese consumers.

The special inspections target cattle categorized as high risk, including downer animals. Inspections have thus far been carried out on 759,000 cattle, and two positive cases have been found.

Commenting on the special inspections, Johanns concluded, "It was found that the BSE level of US cattle is extremely low." Regarding regular inspections, which target 40,000 cows, he noted, "The regular inspections by the US are ten times stricter than international standards." He thus underscored his perception that there is no problem about the safety of US beef. As to the timing of the announcement of the decision, he took the view that it would not bring a sharp reaction from Japanese consumers, saying, "Announcing the decision now is more honest than doing so after beef trade resumed."

13) Abe effectively pledges to maintain 30-trillion-yen government bond framework

SANKEI (Page 5) (Excerpts)
July 21 2006

Referring to policy themes to be tackled by the post-Koizumi administration, Chief Cabinet Secretary Shinzo Abe in a speech given at a meeting of the Editorial Study Group of Subscribers to the Kyodo News Agency, held in Tokyo yesterday, revealed his stance of

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maintaining the current fiscal reconstruction efforts and the 30-trillion-yen framework for the issuance of government bonds. He thus effectively made public commitments in the run-up to the Liberal Democratic Party (LDP) presidential election. He is viewed as being good at diplomatic and security policies, as can be seen his tough approach to North Korea. However, the deep-seated view in the LDP is that his vulnerable point is domestic policy, including economic policy, as an LDP-connected source put it. He has apparently taken a positive stance of playing up his approach to domestic affairs with an eye on the upcoming presidential race.

Commenting on next year's draft budget, Abe noted: "Prime Minister Junichiro Koizumi upheld the 30-trillion-yen framework for the issuance of government bonds in the current fiscal year's budget. I will make efforts to maintain that framework." He thus hinted at including it in his own policy initiative.

The 30-trillion-yen framework was a policy pledge Koizumi made when he came into office. However, he had been unable to fulfill it due to a tax revenue shortage until this year, when he managed fulfill this commitment, backed by an increase in tax revenues.

14) M-5 rocket to be abandoned: JAXA to develop successor at lower cost

TOKYO SHIMBUN (Page 3) (Full)
July 21, 2006

The Japan Aerospace Exploration Agency (JAXA) has decided to end the use of the M-5 solid-fueled rocket for the launch of a science satellite and instead develop a smaller-size solid-fuel rocket. The M-5 was developed by the former Institute of Space and Astronaut Science (ISASS). It has the capability of launching a satellite weighing 1.8 tons into an orbit 250 kilometers high. Six satellites have been launched as of this February, of which five were successful. The problem was that one M-5 rocket costs 7 billion yen, which is expensive in light of its launching capability.

JAXA was established in October 2003, merging the former ISASS and another organization. The new organization reviewed projects that had been undertaken by the three organizations and decided not to allocate new budgetary funds to reduce the cost of the M-5. There was a strong call for continuing the development of a solid-fuel

rocket, which is connected with missile technology.

The launch capability of a rocket to be developed anew will be between 0.5 and 1 ton, but its price will be held to around 2.5 billion yen. There is now a plan to use a solid strap-on booster for the main H-IIA rocket for the main part of the envisaged rocket. JAXA will decide on details by around next May after completing research and development. It said that it wants to begin full-fledged development starting in 2008.

The launching of the Solar-B, a solar observation satellite, at the end of September will be the last launch of an M-5.

JAXA will report its decision at a meeting of the Space Development Commission on July 26.

SCHIEFFER